

CITY OF DIAMONDHEAD, MISSISSIPPI

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2016



**CITY OF DIAMONDHEAD, MISSISSIPPI
TABLE OF CONTENTS
SEPTEMBER 30, 2016**

	<u>Page (s)</u>
INTRODUCTORY SECTION	
Listing of City Officials	1
INDEPENDENT AUDITORS' REPORT	2 – 4
MANAGEMENT DISCUSSION AND ANALYSIS	5 – 11
FINANCIAL SECTION	
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds Financial Statements:	
Balance Sheet	14
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	17
NOTES TO FINANCIAL STATEMENTS	18 – 33

CITY OF DIAMONDHEAD, MISSISSIPPI
TABLE OF CONTENTS (Continued)
SEPTEMBER 30, 2016

	<u>Page(s)</u>
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule (Non-GAAP Basis) General Fund	34 – 35
Note to Budgetary Comparison Schedule (Non-GAAP Basis) – General Fund	36
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Surety Bonds for City Officials	37
REPORTS ON COMPLIANCE AND INTERNAL CONTROL	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38 – 39
Schedule of Findings and Management Responses	40 – 42
Independent Auditors' Report on Compliance with Mississippi State Laws and Regulations	43 – 44

INTRODUCTORY SECTION

**CITY OF DIAMONDHEAD, MISSISSIPPI
LISTING OF CITY OFFICIALS
SEPTEMBER 30, 2016**

ELECTED OFFICIALS

Mayor	Thomas E. Schafer, IV
Councilman – Ward 1	Joseph Lopez (resigned 9/2016) Nancy Depreo (began 10/2016)
Councilman – Ward 2	Thomas Woolbright
Councilman – Ward 3	Thomas Sislow
Councilman – Ward 4	Ronald Rech
Councilman – At Large	Ernest Knobloch

APPOINTED OFFICIAL

City Manager	Clovis Reed (resigned 6/30/17) Michael Reso (began 1/3/18)
Interim City Manager	Richard Sullivan (5/17/17-1/3/18)
City Clerk	Kristin Ventura (resigned 4/2016) Jeannie Klein (began 4/2016)
City Attorney	Sean Tindell

INDEPENDENT AUDITORS' REPORT



ALEXANDER | VAN LOON | SLOAN | LEVENS | FAVRE, PLLC
Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
Wealth Management

INDEPENDENT AUDITORS' REPORT

March 16, 2018

To the Honorable Mayor and City Council
City of Diamondhead
Diamondhead, Mississippi

We have audited the accompanying financial statements of the governmental activities of the City of Diamondhead, Mississippi, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Honorable Mayor and City Council
City of Diamondhead
March 16, 2018

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City of Diamondhead, Mississippi, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 - 11 and 34 - 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Diamondhead, Mississippi's basic financial statements. The introductory section on page 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In addition, the State of Mississippi requires that municipalities submit a schedule of surety bonds maintained for city personnel in compliance with § 21-17-5 of Mississippi Code of 1972. This schedule has been presented on page 37. This schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of surety bonds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Honorable Mayor and City Council
City of Diamondhead
March 16, 2018

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2018, on our consideration of the City of Diamondhead's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Diamondhead's internal control over financial reporting and compliance.

Alexander, Van Loon, Sloan, Levens, & Favre, PLLC
ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS



5000 Diamondhead Circle · Diamondhead, MS 39525-3260
Phone: 228.222.4626 Fax: 228.222.4390
www.diamondhead.ms.gov

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2016

Introduction

The following Management's Discussion and Analysis section of the City of Diamondhead, Mississippi's (the City) activities and financial performance presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal years ended September 30, 2016 and 2015. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow.

Current Year Financial Highlights

- The total assets of the City exceeded total liabilities for the fiscal year ended September 30, 2016 by \$66,725,519 (net position). Of this amount \$4,397,808 (unrestricted net position), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's General Fund's fund balance, which represents the difference between assets minus liabilities, increased by \$477,030 for the period ended September 30, 2016.
- General revenues amounted to \$4,299,590 or 75% of total revenues due primarily to property taxes, sales taxes and State and Local shared revenue. Program revenues amounted to \$1,433,907 or 25% of total revenues.
- Capital Assets were purchased in the amount of \$278,816 in 2016 due primarily to infrastructure projects for drainage and paving as well as vehicles for Public Works. Land worth \$254,012 and a capital asset worth \$4,553 were contributed from private donors. Construction in Progress was \$844,337. Depreciation expense recorded for year ended September 30, 2016 was \$2,252,866.
- The City's total capital assets increased by approximately \$1.3 million or 2%; going from \$70.6 million in 2015 to \$71.9 million in 2016. Much of this increase is related to infrastructure projects for drainage and paving.
- As a result of the purchase of City Hall and additional equipment/vehicles, \$1,144,865 and \$113,748, respectively, was the overall outstanding debt owed to Hancock Bank as of September 30, 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Current Year Fund Highlights

- *General Fund* – This fund is used for the general operations of the City. Total General Fund revenues were \$5,819,108 and expenditures were \$5,342,078 including \$177,151 in principal and interest payments for capital leases. General Fund operations (excluding principal and interest payments) resulted in \$5,819,108 in revenues and \$5,164,927 in expenditures for 2016.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For the governmental fund, these statements tell how services were financed in the short-term as well as what dollars remain for future spending.

In addition, this report also contains other supplementary information.

Reporting the City of Diamondhead as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City looks at all financial transactions and asks the question, "How did we do financially during 2016?" The Statement of Net Position and the Statement of Activities answer this question.

These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net position and the changes in that position. This change in position is important because it tells the reader whether, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of City capital assets will also need to be evaluated.

In the Statement of Net Position and the Statement of Activities, the City's activities are reported as governmental activities, which include all the City's services including general government, public safety, public works, solid waste, building/planning & zoning, economic development, debt service and capital projects. The City of Diamondhead has no component units.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Governmental Fund

The City's governmental fund focuses on how money flows into and out of this fund and the balance left at year-end available for spending in future periods. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to the City's residents. The relationship (or differences) between governmental activities (reported in the Statement of Position and the Statement of Activities) and the governmental fund is reconciled in the financial statements.

Fund Financial Statements

Fund financial reports provide detailed information about the City's major fund. Since the City is a newly established city it reports only one fund: the General Fund. As the need arises, the City will establish other funds as appropriate for each individual use.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

The City of Diamondhead as a Whole

Recall that the Statement of Net Position and Statement of Activities look at the City. Table 1 and Table 2 provide a summary of the City's net position and activities for the fiscal years ended September 30, 2016 and 2015.

TABLE 1 City of Diamondhead, Mississippi Condensed Statement of Net Position September 30, 2016 and 2015			
	Governmental Activities		
	2016	2015	Change
Assets			
Current assets	\$ 4,765,549	\$ 4,585,155	180,394
Capital assets, net	63,590,083	64,478,943	(888,860)
Total Assets	\$ 68,355,632	\$ 69,064,098	(708,466)
Liabilities			
Current liabilities	\$ 498,528	\$ 697,935	(199,407)
Long-term liabilities	1,131,585	1,273,152	(141,567)
Total Liabilities	\$ 1,630,113	\$ 1,971,087	(340,974)
Net position			
Invested in capital assets, net of related debt	\$ 62,242,364	\$ 62,718,739	(476,375)
Restricted for:			
Capital Projects	\$ 63,847	\$ 169,165	(105,318)
Fire Protection millage assessment	21,500	21,500	-
Unrestricted	4,397,808	4,183,607	214,201
Total Net Position	\$ 66,725,519	\$ 67,093,011	(367,492)

TABLE 2 City of Diamondhead, Mississippi Condensed Statement of Activities For the Fiscal Year ended September 30, 2016 and September 30, 2015			
	Governmental Activities		
	2016	2015	Change
Revenues:			
Program revenues:			
Charges for services	\$ 922,748	\$ 725,152	197,596
Capital grants and contributions	511,159	607,773	(96,614)
Total program revenues	1,433,907	1,332,925	100,982
General revenues	4,299,590	4,414,620	(115,030)
Total revenues	\$ 5,733,497	\$ 5,747,545	(14,048)
Expenses:			
General government	\$ 1,459,808	\$ 1,132,766	327,042
Public safety	705,605	721,075	(15,470)
Public works	3,229,313	3,127,249	102,064
Solid Waste	368,521	403,991	(35,470)
Building/Planning & zoning	141,645	112,538	29,107
Economic development	100,342	63,806	36,536
Capital Projects	39,252	26,455	12,797
Interest on long-term debt	38,791	41,654	(2,863)
Loss on disposal of asset	17,712	-	17,712
Total expenses	\$ 6,100,989	\$ 5,629,534	471,455
Increase (Decrease) in net position	(367,492)	118,011	(485,503)
Net position - beginning	67,093,011	66,975,000	118,011
Net position - ending	\$ 66,725,519	\$ 67,093,011	(367,492)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Governmental Activities

In fiscal year 2016, governmental activities decreased the City's net position by \$367,492. Capital asset contributions were recorded in 2016 for fair value (less cash payments) of land and equipment in the amount of \$258,565. Other capital grants for this period totaled \$252,594. The City continues to seek grants and assistance from various other governmental agencies to help provide support for the City's various responsibilities to its citizens. General revenues such as property, franchise, and privilege taxes are not shown by program, but are used to support program activities citywide. Property taxes of \$2,945,653 provided the most funding of the general revenues of the City. Sales taxes of \$556,860 reflect a steady growth. The City has negotiated franchise agreements with utility companies that generated \$292,902 for the year.

Income from intergovernmental of \$483,948 reflects shared local and shared sources including homestead exemption reimbursement and pro-rata road and bridge taxes.

The public works function is the largest expense, 53% of total expenses, for the City during the year ended September 30, 2016. This is largely due to the depreciation expense recorded on infrastructure for the period. However, the cost of general government was 24% while solid waste was 6% of total expenses.

Public safety expenses make up 12% of total expenses and primarily consist of payments made to Hancock County under an interlocal agreement for the County to provide police protection within the City's municipal borders.

Financial Analysis of the City's Fund

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Funds are created and segregated for carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Governmental funds are used to account for tax-supported activities.

The focus of the City's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable and nonspendable resources. Such information may be useful in assessing the City's financing requirements. The unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use at the end of the fiscal year. This fund is accounted for by using the modified accrual basis of accounting.

General Fund

The General Fund had an unassigned fund balance of \$4,073,923 at the end of fiscal year ended September 30, 2016. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 76% of total fund expenditures at the close of year.

Overall, the General Fund's performance resulted in revenues exceeding expenditures for the fiscal year ended September 30, 2016 by \$477,030. It is important that the City build reserves to provide funding for future capital projects, including streets and drainage maintenance and improvements. There will be continued efforts to make improvements to the City's infrastructure. It is also important for the City to keep a disaster contingency fund available for future catastrophic events.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

General Fund Budgeting Highlights

The City's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. Governmental auditing standards require that cities present budgetary comparison schedules as required supplementary information to the financial statements.

During 2016, the City amended its general fund budget. All recommendations for a budget change come from the City Manager to the Council for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without council approval. With the General Fund supporting many of our major activities, such as our police and court departments, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets as of September 30, 2016, and 2015 totaled \$63,590,083 and \$64,478,943, respectively (net of accumulation depreciation). Capital assets include land, streets, vehicles, machinery, equipment, furniture and fixtures.

During the year, the City received approximately \$254,012 in land for drainage easements and \$4,553 in other equipment from various organizations to assist City employees with performing services for the City's citizens. Other additions to capital assets were purchased in the amount of \$278,816 using funds provided mostly by grants and capital leases. Depreciation expense for the year totaled \$2,252,866. Detailed information can be found in the notes to the financial statements on page 27 – 28 of this report.

Debt Administration

At the end of fiscal years 2016 and 2015, the City had capital lease obligations of \$1,258,613 and \$1,396,973, respectively. As of fiscal year ended September 30, 2016, accrued compensated absences totaled \$15,920. Detailed information concerning the City's debt can be found on pages 28 - 30 of this report.

Current Financial Related Activities and Economic Climate

Challenges facing the City at this time are great; however, the Council recognizes its responsibility to use sound fiscal judgment when dealing with issues that arise. The City is looking for ways to improve citizen services with the least amount of cost of government. At present, the City is continuing to seek various grant funding opportunities.

The City has adopted a 25-year Comprehensive Plan and Zoning Ordinance to fulfill our incorporation goal of enacting municipal planning and zoning and enabling building inspections and code enforcement. A Planning and Zoning Commission of seven citizens, all volunteers serving three-year staggered terms, are appointed by the City Council.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

We are finalizing the improvements to city hall. We started major drainage projects throughout the city and have almost finished the upgrade of Live Oak Drive to ease traffic congestion. We have applied for additional grants to improve the traffic flow in and throughout the city as well as add amenities to the city.

We are a young city; nonetheless, we are very vibrant and dedicated to our mission to serving the citizens of Diamondhead. We have accomplished much in our first five years. We are striving to learn from other municipalities and to adopt the best proven practices. We have a residential area that is second to none; we want to remain one of the safest and cleanest communities on the Gulf Coast. We will strive to expand our commercial district to increase our economic development opportunities.

Contact the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jeannie Klein, City Clerk, at (228) 222-4626 or at City Hall, 5000 Diamondhead Circle, Diamondhead, MS 39525.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF DIAMONDHEAD, MISSISSIPPI
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Governmental Activities
ASSETS	
Cash	\$ 4,094,847
Receivables, net	369,560
Due from other governments	161,552
Prepaid items	54,243
Restricted assets:	
Cash	85,347
Capital assets	
Nondepreciable assets	8,030,772
Depreciable assets, net of depreciation	55,559,311
Total capital assets	63,590,083
Total assets	68,355,632
LIABILITIES	
Accounts payable	299,395
Accrued liabilities	42,985
Long-term liabilities:	
Due within one year	
Capital leases	133,358
Accrued interest	9,590
Compensated absences	13,200
Due in more than one year	
Capital leases	1,125,255
Compensated absences	6,330
Total liabilities	1,630,113
NET POSITION	
Invested in capital assets, net of related debt	62,242,364
Restricted for:	
Capital projects	63,847
Fire protection millage assessment	21,500
Unrestricted	4,397,808
Total net position	\$ 66,725,519

The accompanying notes are an integral part of these financial statements.

CITY OF DIAMONDHEAD, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Exhibit B

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	Total Governmental Activities
Primary government				
Governmental Activities				
General government	\$ 1,459,808	\$ 460	\$ 511,159	\$ (948,189)
Public safety	705,605	296,600	-	(409,005)
Public works	3,229,313	-	-	(3,229,313)
Solid waste	368,521	516,331	-	147,810
Building/Planning & zoning	141,645	109,357	-	(32,288)
Economic development	100,342	-	-	(100,342)
Capital projects	39,252	-	-	(39,252)
Interest expense	38,791	-	-	(38,791)
Total governmental activities	<u>\$ 6,083,277</u>	<u>\$ 922,748</u>	<u>\$ 511,159</u>	<u>(4,649,370)</u>
General revenues:				
Taxes:				
Property taxes				2,945,653
General sales taxes				556,860
Franchise fees				292,902
Intergovernmental				
State and local shared revenue				483,948
Interest income				16,531
Other revenue				3,696
Loss on disposal of asset				(17,712)
Total general revenues				<u>4,281,878</u>
Change in net position				(367,492)
Net position - beginning				<u>67,093,011</u>
Net position - ending				<u>\$ 66,725,519</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUND FINANCIAL STATEMENTS

**CITY OF DIAMONDHEAD, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2016**

	<u>General Fund</u>
ASSETS	
Cash	\$ 4,094,847
Receivables, net	369,560
Due from other governments	161,552
Prepaid items	54,243
Restricted assets:	
Cash	85,347
Total assets	<u>\$ 4,765,549</u>
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 299,395
Accrued liabilities	56,574
Unearned revenue	196,067
Total liabilities	<u>552,036</u>
Fund balance:	
Nonspendable:	
Prepays	54,243
Restricted for:	
Capital projects	63,847
Fire protection millage assessment	21,500
Unassigned	4,073,923
Total fund balance	<u>4,213,513</u>
Total liabilities and fund balance	<u>\$ 4,765,549</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DIAMONDHEAD, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Total fund balance, governmental fund	\$ 4,213,513
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	63,590,083
Certain revenues are not available to pay current period expenditures and therefore are reported as a liability in this fund financial statement. This liability is not reported in the governmental activities of the Statement of Net Position.	196,067
Some liabilities, (such as Notes Payable, Capital Lease Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	(1,264,944)
Compensated absences that are not liquidated with expendable available financial resources are not included in the fund financial statement, but are reported with the governmental activities of the Statement of Net Position.	(9,200)
Net Position of Governmental Activities in the Statement of Net Position (Exhibit A)	\$ <u>66,725,519</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DIAMONDHEAD, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 2,945,653
Sales tax	556,860
Fees and fines	300,306
Licenses and permits	110,877
Franchise fees	292,902
Intergovernmental	815,736
Solid waste	516,331
Charges for services	396
Investment earnings	16,531
Miscellaneous	4,951
Capital contributions	258,565
Total revenues	<u>5,819,108</u>
EXPENDITURES	
Current:	
General government	2,192,833
Public safety	784,851
Public works	1,578,127
Solid waste	368,521
Building/Planning & zoning	140,253
Economic development	100,342
Debt service:	
Principal	138,360
Interest and other charges	38,791
Total expenditures	<u>5,342,078</u>
Excess of revenues over expenditures	<u>477,030</u>
Net change in fund balance	477,030
Fund balance - beginning	<u>3,736,483</u>
Fund balance - ending	<u><u>\$ 4,213,513</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF DIAMONDHEAD, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Net change in fund balance - total governmental fund: \$ 477,030

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which depreciation (\$2,252,866) exceeded capital asset additions (\$1,381,718) in the current period. (871,148)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. (85,611)

Governmental funds report repayment of capital lease principal as an expenditure, in contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. 138,360

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. (26,123)

Change in net position of governmental activities (Exhibit B) \$ (367,492)

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Introduction

The City of Diamondhead, Mississippi, (the "City") was incorporated January 30, 2012 under the laws of the State of Mississippi. The City operates under a council-manager form of government as provided by its charter. The Mayor and five City Council members are elected and serve four-year terms. The City Council directly appoints officers (City Attorney, City Clerk, City Manager, and Presiding Judge) who have full responsibility for carrying out City Council policies and administering day-to-day City operations.

Since the City is newly established, many municipal services are provided through interlocal contracts with independent entities. Police services are provided by the Hancock County Sheriff Department; fire protection services are provided by the Diamondhead Fire District; and water and sewer services are provided by Diamondhead Water and Sewer District. All of these entities have separate elected and/or appointed boards and provide services to residents, generally within the geographic boundaries of the City. They are excluded from the reporting entity because the City does not have the ability to exercise influence or control over their daily operations, approve budgets or provide funding.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2016.

II. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units of the City consist of oversight responsibility, special financing relationships and scope of public services. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. Based on these criteria, the City has no component units.

III. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. Taxes and items not properly included as program revenues are reported instead as general revenues.

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

III. Government-wide and Fund Financial Statements (Continued)

Fund Financial Statements

Municipality fund financial statements are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. The City, at present, has only one fund, the general fund, which is the primary governmental fund for the City.

IV. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(A) Basis of Accounting

The City complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities, and as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles.

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of the related cash flows. Shared revenues are recognized when the provider recognizes the liability to the City. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been satisfied.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The City considers revenues to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Major revenue sources susceptible to accrual include: property taxes, franchise taxes, sales taxes, and intergovernmental revenues. In general, other revenues are recognized when cash is received by the City.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, as appropriate, then unrestricted resources as needed.

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**IV. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

(B) Fund Type and Major Fund

The City reports the following major governmental fund:

General Fund - The general fund is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund, when applicable.

(C) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

V. Assets, Liabilities, and Net Position or Equity

(A) Cash and Cash Equivalents

The City's cash and cash equivalents are primarily considered to be cash on hand and amounts held in demand deposits.

State statutes authorize the City to invest in (1) direct obligations of the United States government to the payment of which the full faith and credit of the United States government is pledged, (2) certificates of deposit when insured or secured by acceptable collateral, and (3) obligations of the State of Mississippi, or any county, municipality or school district of the State of Mississippi which have been approved by a reputable bond attorney or have been validated by the decree of the chancery court. Investments, if any, are recorded at cost, which approximates fair value.

(B) Receivables

Court fines receivable is shown net of an estimated allowance for uncollectibles. The estimated uncollectible allowance amount is based on the aging of the receivables, historical collection experience and other relevant circumstances.

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Equity (Continued)

(C) Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2016, are recorded as prepaid items. In governmental funds, reported prepaid items are equally offset by nonspendable fund balance amounts, which indicate they do not constitute "available spendable resources" even though they are a component of net current assets. The net change in nonspendable fund balances is not presented because the combined statement of revenues, expenditures, and changes in fund balances reflects the changes in total fund balances rather than just the spendable and nonspendable fund balances.

(D) Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are externally imposed by creditors, contributors, grantors, or laws. Restricted assets in the general fund represent fire protection millage assessments collected that are subject to refund and amounts restricted per loan covenants. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

(E) Capital Assets

Capital assets, which include property, plant, equipment, and current infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), net of depreciation, are reported in the government-wide financial statements. The City generally capitalizes assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Major outlays for capital assets and improvements are capitalized as projects are constructed. Donated capital assets are recorded at acquisition value at the date of donation. Capital assets include significant amounts of donated infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements	20 years
Infrastructure	20 years
Machinery and equipment	3 - 10 years
Furniture and fixtures	3 - 10 years

CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Equity (Continued)

(F) Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources during the current period. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

(G) Compensated Absences

The City's policy on vacation leave allows employees to accrue vacation time based on a certain accrual rate per pay period once that employee has had one year of continuous service for the City. There are no restrictions on when the employees are allowed to take their vacation time. Retiring and voluntarily terminating employees can be paid for up to 15 days of unused vacation. It is the City's policy that all unused sick leave is forfeited upon termination, retirement, or layoff. There is no liability for unpaid accumulated sick leave since sick pay is not paid upon termination of employment. Employees can accrue up to 40 hours per year in years 1-5, 80 hours per year in years 6-10, and 120 hours per year in year 11 and beyond. Employees may roll over up to three most recent years of unused vacation time. All accumulated vacation is accrued when incurred in government-wide financial statements. In fund financial statements, governmental funds report the compensated absences liability payable only if the payable has matured, for example, as a result of employee resignations and retirements or use of vacation time.

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours is multiplied by the employee's hourly rate at September 30, 2016. The resulting liability is then increased to include social security that the City is required to pay upon liquidation of the liability.

(H) Fund Equity

As of September 30, 2016, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority of the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Equity (Continued)

(H) Fund Equity (Continued)

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's policy, only City Council or an official or body to which the City Council delegates the authority may assign amounts for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council or an official or body to which the City Council delegates the authority has provided otherwise in its commitment or assignment actions.

(I) Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

(J) Capital Contributions

Assets contributed by other organizations and governmental agencies are recorded at fair value at the time of the contribution. Those assets received that will be capitalized are recorded as capital outlay in the fund statements and capital grant and contribution revenues in the statement of activities.

VI. Stewardship, Compliance and Accountability

A. Budgetary and Budgetary Accounting

The procedures used by the City in establishing the budget are mandated by Mississippi State law. A brief summary of the City's policies for recording budgetary data in the financial statements are as follows:

1. Prior to August 1, the City Manager submits to the Mayor and City Council a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. No later than September 15, the budget is legally enacted through passage of a resolution.

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

VI. Stewardship, Compliance and Accountability (Continued)

A. Budgetary and Budgetary Accounting (Continued)

4. Formal budgetary integration is employed as a management control device during the year for the governmental fund.
5. Budgets for the governmental fund are adopted on a cash basis except for expenditures which include those paid within 30 days of the fiscal year end as required by state statute.

B. Budgetary – GAAP Reporting Reconciliations

Annual budgets are adopted for the general governmental fund. Budgetary comparisons, presented in the required supplementary information section of this report, are on the budgetary basis. Certain adjustments are necessary to compare actual data on a GAAP versus budget basis. These reconciling adjustments can be found in the Budgetary Comparison Schedule.

NOTE 2: CASH

A summary of cash at September 30, 2016 is as follows:

	<u>Cash on Hand</u>	<u>Pooled Cash Deposits</u>	<u>Total</u>
Governmental Activities			
General Fund	\$ 700	\$4,179,494	\$4,180,194

The City maintained the following restricted assets as of September 30, 2016:

Governmental Activities

Cash

Restricted for fire protection millage assessment	\$ 21,500
Restricted for capital projects	63,847
Total restricted assets - governmental activities	<u>\$ 85,347</u>

The City reports cash as of September 30, 2016 on the statement of net position as follows:

Governmental Activities

Cash	\$ 4,094,847
Restricted assets	85,347
Total cash - governmental activities	<u>\$ 4,180,194</u>

CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2: CASH (Continued)

Custodial Credit Risk - Deposits.

Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. The collateral is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Miss. Code Ann. (1972), §27-105-5. Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

At September 30, 2015, deposits (including restricted deposits) are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash	<u>\$4,218,227</u>	<u>\$4,179,494</u>

NOTE 3: RECEIVABLES

Receivables at September 30, 2016, consist of the following:

	<u>Amount</u>
Property taxes	\$154,326
Franchise taxes	81,492
Court fines	372,173
Solid waste fees	64,071
Other	<u>8,371</u>
Total receivables, gross	680,433
Less allowance for doubtful receivable	<u>(310,873)</u>
Total receivables, net	<u>\$369,560</u>

Property Taxes

Hancock County bills and collects the real, personal, and auto ad valorem taxes for the City for a commission of 2% of gross collections not to exceed \$40,000 per year. Taxes on real and personal property are levied by the Council by September 15 for the ensuing fiscal year, which begins October 1. Restrictions associated with property tax levies vary with the statutory authority. State law limits the amount of increase in certain property taxes.

CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3: RECEIVABLES (Continued)

Property Taxes (Continued)

Real property taxes become a lien on January 1 and personal property taxes become a lien on March 1 of the current calendar year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicle and mobile homes become a lien and are due in the month that coincides with the month of original purchase. All taxes collected are remitted monthly to the City. In addition, Hancock County also remits to the City a pro-rata share of road and bridge taxes collected by the County. One half of the road and bridge taxes are remitted to the City, while the other half is held by the County until the City requests the funds from the County's Board of Supervisors. Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available.

All property taxes are recognized as revenue when received. Real property taxes are recognized as revenue when received because most delinquent real property taxes are collected by selling real property for taxes, together with all fees, penalties and damages accruing until date of sale, before the close of the fiscal year. The remaining amount of real property not sold for taxes at the tax sale is considered immaterial; therefore, no end of year delinquent taxes receivable is recorded. The amount of delinquent personal property taxes unpaid at year-end is also considered immaterial.

The rates are expressed in terms of mills. The combined tax rate to finance general government services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2016, was 34 mills or \$34 per \$1,000 of assessed valuation. A summary of the assessed valuations and tax levies of the City for the year ended September 30, 2016, have been provided below.

The assessed valuations of the City for the year ended September 30, 2016, are as follows:

Real property	\$77,289,913
Personal property	1,674,307
Public utilities	106,878
Automobiles	16,369,912
Totals	<u>\$95,441,010</u>

The tax levies for the City for the years ended September 30, 2016, 2015, and 2014 are as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
General Fund	<u>34.00</u>	<u>34.00</u>	<u>34.00</u>
Total levy	<u>34.00</u>	<u>34.00</u>	<u>34.00</u>

NOTE 4: DUE FROM OTHER GOVERNMENTS

Due from other governments at September 30, 2016, consists of the following:

Grants	\$ 70,644
State of Mississippi, sales tax diversion	<u>90,908</u>
Total due from other governments	<u>\$ 161,552</u>

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 4: DUE FROM OTHER GOVERNMENTS (Continued)

Sales Tax

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Diamondhead) back to the City monthly. Sales tax revenue was \$556,860 for the year ended September 30, 2016. Sales tax receivable is included in due from other governments on the statement of net position and balance sheet – governmental funds. Sales tax receivable consists of taxes collected by the State for August and September 2016 and not received by the City until October and November 2016.

NOTE 5: CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended September 30, 2016:

	Balance October 1, 2015	Additions	Disposals	Transfers	Balance September 30, 2016
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 7,514,515	\$ 254,012	\$ -	\$ -	\$ 7,768,527
Construction in progress	974,400	844,337	-	(1,556,492)	262,245
Total capital assets, not being depreciated	<u>8,488,915</u>	<u>1,098,349</u>	<u>-</u>	<u>(1,556,492)</u>	<u>8,030,772</u>
Capital assets, being depreciated:					
Buildings and improvements	42,025	43,393	-	-	85,418
Machinery and equipment	873,417	239,976	(3,002)	-	1,110,391
Infrastructure	59,658,023	-	-	625,560	60,283,583
Assets under capital leases	1,584,212	-	(31,819)	930,932	2,483,325
Total capital assets, being depreciated	<u>62,157,677</u>	<u>283,369</u>	<u>(34,821)</u>	<u>1,556,492</u>	<u>63,962,717</u>
Less accumulated depreciation for:					
Buildings and improvements	(1,954)	(35,797)	-	-	(37,751)
Machinery and equipment	(217,681)	(37,990)	2,651	-	(253,020)
Infrastructure	(5,752,033)	(2,123,281)	-	-	(7,875,314)
Assets under capital leases	(195,981)	(55,798)	14,458	-	(237,321)
Total accumulated depreciation	<u>(6,167,649)</u>	<u>(2,252,866)</u>	<u>17,109</u>	<u>-</u>	<u>(8,403,406)</u>
Total capital assets, being depreciated, net	<u>55,990,028</u>	<u>(1,969,497)</u>	<u>(17,712)</u>	<u>1,556,492</u>	<u>55,559,311</u>
Total governmental activities capital assets, net	<u>\$64,478,943</u>	<u>\$ (871,148)</u>	<u>\$ (17,712)</u>	<u>\$ -</u>	<u>\$63,590,083</u>

The majority of the balance in construction in progress at September 30, 2016 includes a balance of \$187,363 on the East Aloha Access Road project. The remaining balance of \$74,880 in construction in progress consists of four different projects including road and drainage improvements. Land additions consist of two parcels of land that were contributed to the City by a private donor.

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 5: CAPITAL ASSETS (Continued)

Assets under capital leases include buildings, grounds, and equipment that were acquired through capital leases financing with a local financial institution (see Note 6 for additional information). As of September 30, 2016, these capitalized assets and the related accumulated depreciation are as follows:

Asset	Capitalized Amount	Accumulated Depreciation
Buildings and grounds - City Hall	\$2,222,197	\$ 65,165
Equipment	261,128	172,156
Total	<u>\$2,483,325</u>	<u>\$ 237,321</u>

Depreciation expense associated with the assets under capital leases in fiscal year 2016 totaled \$237,321 and is included in the statement of activities, general government, public safety, and public works expenses.

Depreciation expense was charged to the following governmental functions:

Governmental Activities

General government	\$ 70,792
Public safety	19,832
Public works	2,161,615
Economic development	627
Total governmental activities	<u>2,252,866</u>
depreciation expense	<u>\$2,252,866</u>

NOTE 6: LONG-TERM DEBT

Changes in long-term debt during the year ended September 30, 2016 are as follows:

	Balance October 1, 2015	Additions	Principal Payments/ Reductions	Balance September 30, 2016	Due within One Year
Capital lease payable	\$1,215,575	\$ -	\$ (70,710)	\$ 1,144,865	\$ 72,895
Capital lease payable	181,398	-	(67,650)	113,748	60,463
Compensated absences	12,223	24,737	(17,430)	19,530	13,200
Total activities	<u>\$1,409,196</u>	<u>\$ 24,737</u>	<u>\$ (155,790)</u>	<u>\$ 1,278,143</u>	<u>\$146,558</u>

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 6: LONG-TERM DEBT (Continued)

(A) Capital Leases

At September 30, 2016, the City had the following outstanding capital leases:

	<u>Original Amount</u>	<u>Balance September 30, 2016</u>
Capital lease payable to Hancock Bank, dated August 1, 2013, secured by various equipment, bearing an interest rate of 1.18%, payable in annual installments of \$61,898, which includes both principal and interest, through April 1, 2018.	\$ 300,000	\$ 113,748
Capital lease payable to Hancock Bank, dated July 22, 2014, secured by building and land, bearing an interest rate of 3.09%, payable in annual installments of \$108,271, which includes both principal and interest, beginning on July 1, 2015 through July 1, 2029.	<u>1,286,415</u>	<u>1,144,865</u>
Total capital leases	<u>\$ 1,586,415</u>	<u>\$ 1,258,613</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of September 30, 2016, were as follows:

<u>Year Ending September 30,</u>	<u>Total</u>
2017	\$ 170,169
2018	162,279
2019	108,272
2020	108,272
2021	108,272
2022 - 2026	541,358
2027 - 2029	<u>324,814</u>
Total minimum lease payments	1,523,436
Less amount representing interest	<u>(264,823)</u>
Present value of minimum payments	<u>\$1,258,613</u>

On July 22, 2014, the City acquired its city hall buildings and grounds through a capital lease agreement between Southern Mississippi Investment Co., Inc., Hancock Bank, and the City. Under this agreement, Southern Mississippi Investment Co., Inc.'s purchase of the buildings and grounds was financed by a loan agreement with Hancock Bank. The Hancock Bank loan amount included funds to purchase and renovate the buildings and grounds. An assignment agreement between the parties includes stipulations that Southern Mississippi Investment Co., Inc. assign all its rights, title, and interest in the lease agreement, including receiving rental payment, to Hancock Bank.

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 6: LONG-TERM DEBT (Continued)

(A) Capital Leases (Continued)

Under the terms of these agreements, rental and additional rental payments made by the City are paid directly to Hancock Bank as repayment of Southern Mississippi Investment Co., Inc.'s loan. As of September 30, 2016, the City has \$63,847 in cash that is restricted for city hall buildings and grounds renovation. Any of this restricted cash that is not used when the city hall renovation is complete must be used to prepay the loan.

(B) Legal Debt Margin

The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2016, all of the City's debt was exempt from legal debt margin calculations per state statute.

(C) Interest Expense

For the year ended September 30, 2016, \$38,791 in interest was expensed and is included in the statement of activities under interest expense.

NOTE 7: DEFERRED COMPENSATION PLAN

Plan Description

The City, through the Mississippi Public Employees' Retirement System (PERS), offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code Section 457 and enacted by the Mississippi State Legislature. The Mississippi Deferred Compensation Plan is a supplemental retirement savings plan. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The assets of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. The requirements of Internal Revenue Code Section 457(g) prescribe that the City does not own the amounts deferred by employees, including related income on those amounts. Additionally, the City does not have fiduciary accountability for the plan. Accordingly, the assets and the liability for compensation deferred by plan participants, including earnings on plan assets, are not included in the City's financial statements.

Funding Policy

The plan is voluntary and contributions are matched up to a certain percent designated by Council. The City matches an employee's contributions on a dollar for dollar basis up to a maximum of 8% of the employee's salary or \$5,000 per fiscal year, whichever is less. The City contributed \$11,319 to the deferred compensation plan for the fiscal year ended September 30, 2016.

CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8: COMMITMENTS AND CONTINGENCIES

(A) Litigation

The City is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the City with respect to the various proceedings. However, the City's legal counsel believes that ultimate liability resulting from these proceedings will not have a material adverse effect on the financial condition of the City.

(B) Grants and Awards

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally federal and state governments. Any disallowed expenses, including amounts already collected, might constitute a liability of the applicable funds.

(C) Operating Lease Commitments

Non-cancellable operating leases at September 30, 2016 are as follows:

In May 2013, the City entered into a lease agreement for a copier located at the City Hall. The lease agreement is for sixty (60) months with payments of \$219 per month.

In July 2014, the City entered into a lease agreement for a copier located at the Police Department. The lease agreement is for sixty (60) months with payments of \$84 per month.

In August 2014, the City entered into a lease agreement for a copier located at the Purchasing Department Office. The lease agreement is for sixty (60) months with payments of \$84 per month.

Total operating lease payments made during the year ended September 30, 2016 totaled \$4,647.

The future noncancelable lease obligation of these leases at September 30, 2016 is as follows:

Year Ending September 30,	Total
2017	\$ 4,647
2018	3,552
2019	1,599
	<u>\$ 9,798</u>

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 8: COMMITMENTS AND CONTINGENCIES (Continued)

(D) Contract Commitments

The following represents significant contract commitments as of September 30, 2016:

Interlocal Agreements

Police Protection Services

In September 2012, as approved by the Mississippi State Attorney General and as provided by Miss. Code Ann. (1972), §17-13-1 and §17-13-5. *et seq.*, the City entered into an interlocal cooperation agreement with Hancock County, Mississippi (County), whereby the County will provide all police protection, animal control, investigative services, and other purposes, including 911 services to the City. This agreement was renewed in December 2013, 2015, and 2017 and expires on December 31, 2019. This agreement is cancellable upon 60 days written notice by mutual agreement between parties. For the fiscal year ended September 30, 2016, the City paid \$602,480 to the County for services received under the terms of this agreement, which is included in public safety expenses on the statement on activities.

Taxes Collection Services

In February 2012, the City entered into a two year interlocal agreement with Hancock County, Mississippi (County), whereby the County Tax Collector will provide real, personal, and auto ad valorem property taxes collection services for the City. The terms of the agreement include automatic annual renewal. The agreement can be terminated by either party by written notification. Under the terms of the agreement, the County Tax Collector will retain 2% of gross collections as commission, not to exceed \$40,000 per year. For the fiscal year ended September 30, 2016, the City paid \$40,000 to the County Tax Collector for services received under the terms of this agreement, which is included in general government expenses on the statement of activities.

Delinquent Taxes Collection Services

In February 2012, the City entered into a two year interlocal agreement with Hancock County, Mississippi (County), whereby the County Chancery Clerk will provide delinquent tax redemption payments services for the City. The terms of the agreement include automatic annual renewal. The agreement can be terminated by either party by written notification not less than nine months in advance of annual renewal date. Under the terms of the agreement, the County Chancery Clerk will be paid \$10 per parcel for cost incurred. For the fiscal year ended September 30, 2016, the City paid \$2,356 to the County Chancery Clerk for services received under the terms of this agreement, which is included in general government expenses on the statement of activities.

Solid Waste Fees Collections Services

In November 2013, the City entered into a two year interlocal agreement with Hancock County, Mississippi (County), whereby the County Tax Collector will provide solid waste fees collections for the City. Under the terms of the agreement, services commenced on January 1, 2014, and automatically renews annually. The agreement can be terminated by either party. For the fiscal year ended September 30, 2016, the City paid \$15,489 to the County Tax Collector for services received under the terms of this agreement, which is included in solid waste expenses on the statement of activities.

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 8: COMMITMENTS AND CONTINGENCIES (Continued)

(D) Contract Commitments (Continued)

Service Contract

Solid Waste Collections

Currently, the City's solid waste collections are provided through a contract between Hancock County Regional Solid Waste Authority (Authority) and Waste Management of Mississippi, Inc. (Contractor). Under the terms of the contract, the Contractor will collect, haul, and dispose of solid waste generated by the City's residents. The Contractor submits monthly invoices to the Authority for these services. The Authority bills the City for its respective portion of the Contractor's invoices. For the fiscal year ended September 30, 2016, the City paid \$353,032 to the Authority for solid waste collections services, which is included in solid waste expenses on the statement of activities.

(E) Construction Contract Commitments

The City had \$233,652 in outstanding construction contract commitments with respect to unfinished capital projects as of September 30, 2016, which will be paid from existing grants and restricted funds.

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks.

NOTE 10: SUBSEQUENT EVENTS

The City has evaluated events subsequent to year end through March 16, 2018, which is the date the financial statements were available to be issued. The following events were identified:

(A) Construction Contract Commitments

Subsequent to year end, the City entered into approximately \$928,005 in construction contracts and change orders related to grant management, street and drainage repairs, paving projects, and city hall renovation projects. These projects are funded by federal grants and city funds.

(B) Grants

Subsequent to year end, the City was awarded a \$250,000 Tidelands Grant for the Montjoy Creek Restoration Project.

(C) Other Contracts

Subsequent to year end, the City entered into approximately \$1,170,145 in other contracts, of which \$909,329 were for purchases of vehicles and public works equipment. The remaining was for accounting software (\$182,835), IT services (\$39,048), and other professional services.

SUPPLEMENTARY INFORMATION

CITY OF DIAMONDHEAD, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES				
Taxes				
Ad Valorem - Real Property	\$ 2,278,540	\$ 2,278,540	\$ 2,313,010	\$ 34,470
Ad Valorem - Auto	593,215	593,215	515,746	(77,469)
Ad Valorem - Personal Property	67,027	67,027	51,701	(15,326)
Ad Valorem - Utilities	9,579	9,579	3,634	(5,945)
Penalties & Interest	15,000	15,000	16,360	1,360
Licenses and permits				
Privilege Licenses	7,500	7,500	11,452	3,952
Building Permits	25,000	25,000	75,405	50,405
Contractor's Licenses	3,750	3,750	7,670	3,920
Franchise Fees	314,000	314,000	292,902	(21,098)
Planning & Zoning Fees	2,000	2,000	3,750	1,750
Reinspection Fees	500	500	-	(500)
Federal grants	627,500	627,500	347,805	(279,695)
State shared revenues	667,450	823,000	893,540	70,540
Local shared revenues	185,000	185,000	93,836	(91,164)
Interest	6,500	6,500	16,531	10,031
Solid waste	233,424	233,424	97,247	(136,177)
Fines and forfeitures	37,900	37,900	114,352	76,452
Miscellaneous	4,625	4,625	262,711	258,086
Total revenues	<u>5,078,510</u>	<u>5,234,060</u>	<u>5,117,652</u>	<u>(116,408)</u>
EXPENDITURES				
Legislative				
Personnel services	26,076	26,076	25,780	296
Supplies	500	500	119	381
Other services and charges	12,681	12,681	5,809	6,872
Total legislative	<u>39,257</u>	<u>39,257</u>	<u>31,708</u>	<u>7,549</u>
Judicial - Municipal Court				
Personnel services	89,451	89,451	63,745	25,706
Supplies	1,000	1,000	1,297	(297)
Other services and charges	10,616	10,616	8,372	2,244
Capital outlay	1,675	7,811	6,278	1,533
Total judicial court	<u>102,742</u>	<u>108,878</u>	<u>79,692</u>	<u>29,186</u>
Administration				
Personnel services	450,142	434,515	400,715	33,800
Supplies	32,500	32,500	29,180	3,320
Other services and charges	720,193	710,193	625,140	85,053
Capital outlay	150,900	150,900	20,407	130,493
Total administration	<u>1,353,735</u>	<u>1,328,108</u>	<u>1,075,442</u>	<u>252,666</u>
Public safety				
Police				
Personnel services	-	-	9,371	(9,371)
Supplies	99,079	79,807	52,631	27,176
Other services and charges	789,320	781,320	579,285	202,035
Capital outlay	76,276	49,004	99,076	(50,072)
Total public safety	<u>964,675</u>	<u>910,131</u>	<u>740,363</u>	<u>169,768</u>
Economic development				
Supplies	500	500	-	500
Other services and charges	139,500	139,500	100,342	39,158
Total economic development	<u>140,000</u>	<u>140,000</u>	<u>100,342</u>	<u>39,658</u>

CITY OF DIAMONDHEAD, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
EXPENDITURES, Continued				
Building/Planning & zoning				
Personnel services	97,170	130,580	106,094	24,486
Supplies	6,200	6,200	4,164	2,036
Other services and charges	74,009	74,009	25,271	48,738
Capital outlay	13,195	13,195	310	12,885
Total economic development	<u>190,574</u>	<u>223,984</u>	<u>135,839</u>	<u>88,145</u>
Public works				
Personnel services	927,224	927,224	625,488	301,736
Supplies	241,270	241,270	167,929	73,341
Other services and charges	352,280	352,280	350,403	1,877
Capital outlay	<u>1,491,240</u>	<u>1,491,240</u>	<u>361,500</u>	<u>1,129,740</u>
Total public works	<u>3,012,014</u>	<u>3,012,014</u>	<u>1,505,320</u>	<u>1,506,694</u>
Miscellaneous				
Special Revenue				
Personnel services	53,175	53,175	-	53,175
Contractual services	215,928	235,373	27,754	207,619
Capital outlay	640,550	841,105	453,690	387,415
Capital projects				
Contractual services	6,299	6,299	12,807	(6,508)
Capital outlay	78,732	78,732	70,080	8,652
Solid Waste				
Contractual services	14,400	14,400	13,508	892
Total miscellaneous	<u>1,009,084</u>	<u>1,229,084</u>	<u>577,839</u>	<u>651,245</u>
Debt service				
Debt service - building	108,271	108,271	98,804	9,467
Debt service - equipment	61,898	61,898	322,769	(260,871)
Total debt service	<u>170,169</u>	<u>170,169</u>	<u>421,573</u>	<u>(251,404)</u>
Total expenditures	<u>6,982,250</u>	<u>7,161,625</u>	<u>4,668,118</u>	<u>2,493,507</u>
Excess (deficiency) of revenues over expenditures	<u>(1,903,740)</u>	<u>(1,927,565)</u>	<u>449,534</u>	<u>2,377,099</u>
Net change in fund balance	<u>(1,903,740)</u>	<u>(1,927,565)</u>	<u>449,534</u>	<u>\$ 2,377,099</u>
Fund balance-beginning, budget basis	<u>1,785,158</u>	<u>1,751,491</u>	<u>4,003,136</u>	
Fund balance-ending, budget basis	<u>\$ (118,582)</u>	<u>\$ (176,074)</u>	<u>4,452,670</u>	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of the year.			(266,653)	
Change in accounts receivable			253,722	
Change in due from other governments			7,212	
Change in prepaid expenses			46,213	
Change in accounts payable			(66,289)	
Change in accrued liabilities			(57,294)	
Change in deferred revenue			<u>(156,068)</u>	
Fund balance-ending, GAAP basis			<u>\$ 4,213,513</u>	

See note to budgetary comparison schedule.

CITY OF DIAMONDHEAD, MISSISSIPPI
NOTE TO BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1: BUDGETARY DATA

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

On or before August 1 of each year, the City Manager must present the proposed budget to Mayor and the City Council for review. The City Council holds public hearings and a final budget must be prepared and adopted no later than September 15.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. The general government function of the General Fund is treated as a department for budgetary purposes and its budget is adopted at the object level. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level.

The Budgetary Comparison Schedule presents comparisons of legally adopted budgets with actual data on the budgetary basis. Since accounting principles applied for purposes of developing data on the budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of timing differences in the net change in fund balance for the year ended September 30, 2016 is presented at the end of the Budgetary Comparison Schedule.

OTHER SUPPLEMENTARY INFORMATION

**CITY OF DIAMONDHEAD, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS
SEPTEMBER 30, 2016**

<u>Position</u>	<u>Name</u>	<u>Surety</u>	<u>Bond Amount</u>
Mayor	Thomas Schafer, IV	Traveler's	\$100,000
Council	Ronald Rech	Traveler's	100,000
Council	Ernest Knobloch	Traveler's	100,000
Council	Joseph Lopez	Traveler's	100,000
Council	Thomas Sislow	Traveler's	100,000
Council	Thomas Woolbright (began Oct. 2015)	Traveler's	100,000
Council	Nancy Depreo (began Oct. 2016)	RLI	100,000
City Manager	Clovis Reed (resigned 6/30/17)	Traveler's	50,000
City Clerk	Kristin Ventura (resigned April 2016)	Traveler's	50,000
City Clerk	Jeannie Klein (began April 2016)	Traveler's	50,000
Court Clerk	Lolita McSwain	Traveler's	50,000
Receptionist	Elaine Bienvenu	Traveler's	50,000
Purchasing Clerk	Mary Scott	Traveler's	50,000
Admin Support Clerk	Tammy Garber	Traveler's	50,000
Building Official	Ronald Jones	Traveler's	50,000
Bailiff	William Reid	Traveler's	25,000

REPORT ON INTERNAL CONTROL AND COMPLIANCE



ALEXANDER | VAN LOON | SLOAN | LEVENS | FAVRE, PLLC
Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
Wealth Management

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

March 16, 2018

To the Honorable Mayor and City Council
City of Diamondhead, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of City of Diamondhead, Mississippi, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City of Diamondhead, Mississippi's basic financial statements, and have issued our report thereon dated March 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Diamondhead, Mississippi's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Diamondhead, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Diamondhead, Mississippi's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Honorable Mayor and City Council
City of Diamondhead, Mississippi
March 16, 2018

However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and management's responses, as 2016-001 through 2016-003 that we consider to be a significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Diamondhead, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Diamondhead, Mississippi's Response to Findings

City of Diamondhead, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Diamondhead, Mississippi's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander. Van Loon. Sloan. Levens & Favre, PLLC

ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

CITY OF DIAMONDHEAD, MISSISSIPPI
SCHEDULE OF FINDINGS AND MANAGEMENT RESPONSES (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

2016-001 Finding

Condition

During the audit, we noted that the City did not obtain verification that a contractor was not suspended or debarred before entering into a construction contract.

Criteria

Title 2, Appendix II to Part 200 of the Code of Federal Regulations (Uniform Guidance) specifies that a contract award must not be made to parties listed on the government-wide exclusions in the System for Award Management (SAM). In order to comply with this regulation, the Uniform Guidance stipulates that the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded from participating in the transaction. The verification may be accomplished by 1) checking the SAM maintained by the General Services Administration, 2) collecting a certification from the contractor, or 3) adding a clause or condition to the contract.

Effect

Failure to comply with the Uniform Guidance could result in the City losing federal funding.

Recommendation

We recommend that the City review the complete Uniformed Guidance and develop a checklist of required documents for construction contracts funded by federal awards. The checklist should be maintained with the bid documents to ensure that there is sufficient documentation to adhere to the compliance requirements.

Management's Response

This finding is relating to the contract for the Veterans/East Aloha Access Road. The contractor who was awarded the bid was and is eligible to enter into this construction contract. But we could not find written documentation that this step was done. Management will develop a check list to be included with each bid package so as to have documentation that each required step has been completed for the different categories of contracts. Management will also engage the city attorney to have a clause or condition added to our bid packages and contracts, particularly for federal and MDOT projects, to attest that the contractor is not on the SAM Government-Wide exclusions list.

CITY OF DIAMONDHEAD, MISSISSIPPI
SCHEDULE OF FINDINGS AND MANAGEMENT RESPONSES (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

2016-002 Finding

Condition

During our audit, we noted the City Manager is approving his own travel expenses.

Criteria

Per the City's travel expense policy, all employee travel expenses must be approved by their department head and the City Manager. We noted that the current policy does not require additional review and approval of the City Manager's travel expenses.

Effect

Without approval for the City Manager's travel, there is a higher risk of misappropriation of assets due to unauthorized travel.

Recommendation

We recommend that the City review and consider updating its current travel expense approval process to include the requirement that the City Manager's travel expenses be approved by a higher level of authority, which would be the City Council. In addition, to reduce possibility of unauthorized travel, the City should consider updating its travel expense policy to include presentation to the City Council for pre-approval that would be documented in the official meetings' minutes.

Management's Response

Any overnight travel for the City Manager and Elected Officials is pre-approved by the council as designated by our city policy. Management will look into amending our current policy and procedures concerning the approval of the daily and local travel of our City Manager and Mayor required to fulfill their job responsibilities.

CITY OF DIAMONDHEAD, MISSISSIPPI
SCHEDULE OF FINDINGS AND MANAGEMENT RESPONSES (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2016

2016-003 Finding

Condition

During the audit, it was noted that a payroll duplication was made to the Mayor and City Council. The duplication was not found by the City, but was discovered and reported by one of the recipients, months after the occurrence.

Criteria

The City Clerk is responsible for reviewing and approving the payroll register for every payroll processing period. The review and approval process is designed to prevent, detect, and correct errors in a timely manner, which is a crucial control to the operation of an internal payroll function.

Effect

Without effective controls over payroll, there is a higher risk of misappropriation of assets and fraud due to unauthorized payroll checks.

Recommendation

To improve the effectiveness of the control, we recommend that the City Clerk review and reconcile the supporting payroll documents to each payroll register before the payroll processing is finalized and that the payroll register be initialed and dated, by the City Clerk, as evidence of the review and reconciliation.

Management's Response

The error occurred in September 2015, in fiscal year 2015. Once the error was found in December 2016 the City did request reimbursement of the overpayment from the members in question. To ensure that this error does not happen again, beginning February 2017, the City Council's payroll process is run as a monthly payroll process on the 1st day of each month.



ALEXANDER | VAN LOON | SLOAN | LEVENS | FAVRE, PLLC
Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
Wealth Management

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH MISSISSIPPI STATE LAWS AND REGULATIONS**

March 16, 2018

Honorable Mayor and City Council
City of Diamondhead, Mississippi
Diamondhead, Mississippi

We have audited the basic financial statements of the City of Diamondhead as of and for the year ended September 30, 2016 and have issued our report dated March 16, 2018. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the basic financial statements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations are as follows:

Finding:

The City failed to send the published bid information for three separate construction contracts, all of which were \$50,000 or more, to the Mississippi Procurement Technical Assistance Program. Per Miss. Code Ann. § 31-7-13 (2014) all agencies must follow a specific bidding procedure for purchases over \$50,000. Agencies must advertise for competitive bids once each week for two consecutive weeks in a regular newspaper published in the county or municipality in which such agency is located. On the same date the notice is submitted to the newspaper for publication, the agency or governing authority involved shall mail written notice to, or provide electronic notification to the main office of the Mississippi Procurement Technical Assistance Program under the Mississippi Development Authority that contains the same information as that in the published notice.

Management's response:

As of October 1, 2016, the City put policies and procedures in place to ensure proper state law guidelines are followed concerning the advertisement of bids for projects over \$50,000.

Finding:

Section 21-35-31 (1) of the Mississippi Code requires that the governing authority of every municipality in the state shall have the municipal books audited annually, before the close of the next succeeding fiscal year, in accordance with procedures and requirements prescribed by the State Auditor. The City did not meet the requirements of having the municipal books audited before the close of the next succeeding fiscal year. We understand that personnel turnover during the year played a part in the delay of the audit; however, we recommend that the City implement processes and procedures to ensure that its audit of the financial statements is performed timely in accordance with state law.

Management's response:

The City's 2015 audit was not completed until March 2017 because of internal problems. The turnover of the City Manager and Treasurer further delayed the completion of our fiscal year 2016 audit. The City has and is developing procedures to ensure that audit requirements are met in accordance with state law. The City expects to have the fiscal year 2017 audit completed within the time frame allowed by state statutes.

This report is intended for the information of the City's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Alexander, Van Loon, Sloan, Levens, & Favre, PLLC

ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi